City of San Diego

KEVIN L. FAULCONER
CITY COUNCIL PRESIDENT PRO TEM
DISTRICT 2

CARL DEMAIO
CITY COUNCILMEMBER
DISTRICT 5

10 Criteria for Real Fiscal Reform in City Government

Current Sales Tax Proposal Fails All 10 Criteria

We support a comprehensive plan to fix our city's financial problems – and stand ready to work collaboratively with our colleagues, with business leaders, taxpayer representatives and organized labor to get the job done.

Now we are faced with a new iteration of the sales tax increase -- that guarantees two years of increased taxes without any requirement that reforms be made.

We appreciate our colleague Councilmember Donna Frye's effort to put forward cost savings reforms – all of which we support and have championed for years.

However, under the current proposal the reforms are merely listed as future assignments for city leaders to work on, with absolutely no guarantees for action and results for taxpayers.

We believe our city taxpayers deserve better. That's why we offer the following ten criteria for real fiscal reform in city government.

1. Enact Reforms First

We challenge city leaders to put reform before revenue. We do not believe that tax increases are needed to balance the city's budget – particularly if pension reforms are implemented. Moreover we are committed to ensuring that reform produces on-going cost savings to provide vital neighborhood services (e.g. elimination of fire station brown-outs.)

This is not just a philosophical position – it is a position taken after extensive review of available reforms to the city's pension system and based on cost saving ideas from other cities and counties.

Supporters of the sales tax increase say they do not believe reform will produce enough cost savings to balance the city's budget. We challenge them to prove it by implementing reforms now, and if cost savings come up short, then they will have proven their point.

Put simply, we believe that taxpayers deserve city leaders who aggressively implement reforms before even discussing revenue increases.

Problem With Sales Tax Proposal:
The reforms appended to the sales tax proposal are long overdue – and have been on the table for a long time. Unfortunately, the proposal asks taxpayers to simply trust the city to implement reforms. Moreover, the list of reforms is not the complete list of what can and should be implemented to balance the budget and restore vital services.

2. Obtain Full Fiscal Analysis

No "comprehensive plan" should be advanced without a full and complete fiscal analysis showing it solves our city's financial problems – both for the short term and in the long term.

Problem With Sales Tax Proposal:
Many City Hall observers concede that the true size of the city's structural budget deficit has not yet been revealed. Unfortunately, there has been no fiscal analysis on the proposal. What is clear is the half-cent sales tax increase will cost San Diego's working families $103 million annually.

3. Include Accountability Targets

Real reform must put in place specific cost saving "targets" and hold city leaders and labor unions accountable for hitting those targets before any discussion of revenues occurs.

Problem With Sales Tax Proposal:
As noted above, the list of reforms in the sales tax increase contain absolutely no requirement that the reforms actually be implemented. Worse, several of the reforms relate to the preparation of "reports" and "plans" rather than implementation and achievement of concrete savings for taxpayers.

Finally, several of the reforms cannot be implemented unless labor unions agree to re-open existing labor contracts. Without a commitment from labor unions to renegotiate on those points, the reforms could be delayed or blocked. Despite this lack of guarantee, city taxpayers will still be paying the increased sales tax the whole time.

4. Establish New Pension Tiers

The city must reform pension benefits for all new hires – and allow city employees to choose from multiple retirement options at different cost points. Any reform plan must also commit to allowing existing city employees to "opt-out" of higher pension tiers into lower, more affordable pension tiers.

Problem With Sales Tax Proposal:
We support the concept of establishing a 401(k)-type plan, but the proposal does not commit to making this available for all employees. Moreover, there is no commitment that city leaders and labor unions will agree to allow (pending IRS tax approval) for the Orange County model of allowing all existing employees to voluntarily "opt-out" of the existing pension system into more affordable ones.

5. Reform Pension Contributions

We must enact real reforms to the way city employees are asked to contribute for their fair share of the cost of the city's pension benefits. Our reforms to city employee contributions are intended not only to protect city taxpayers from footing more of the bill for pension than they should, but to provide financial incentive for city employees to choose to "opt-out" of unsustainable and costly pension benefit packages.

We believe a collaborative reform plan should include meaningful settlement of the outstanding dispute over how to define and calculate the employee cost of pensions – including but not limited to the substantially equal lawsuit currently pending.

Problem With Sales Tax Proposal:
The current proposal only mentions the elimination of employee offsets or pick-ups. While we agree that the city should eliminate employee pick-up, the current proposal does not prevent city leaders from eliminating the offsets and then granting an immediate salary increase for the same amount to employees. Municipal labor

unions typically ask for this very accommodation – leaving this reform meaningless as currently designed.

The proposal also does not address the larger and more important issue of redefining and recalculating city employee contributions to include massive investment losses – which are currently paid entirely by city taxpayers. The proposal is also silent on how to resolve and implement reforms stemming from the City Attorney's pending lawsuit involving investment losses.

6. Reform Discretionary Compensation and Benefits

City leaders can adjust various elements of city employee compensation. Not all city pension benefits are "vested" and those that are not should be reformed to achieve cost savings for city taxpayers. We believe the city should further reform the Supplemental Pension Savings Plan (SPSP), end terminal leave, and ensure cost neutrality of the Deferred Retirement Option Program (DROP).

Problem With Sales Tax Proposal:
The current proposal does not prohibit city leaders from granting salary increases to themselves or to city employees. Taxpayers deserve this basic assurance.

As for discretionary pension benefits, the current proposal only commits to ending terminal leave – but presumably only after labor contracts sunset. Absolutely no reform is included in the proposal on the costly SPSP perk – and no reforms to DROP are called for except the compilation of a "study."

7. Competitive Bidding and Outsourcing

A reform plan should include a fair and open process for competitive bidding on city services – as voters explicitly requested when they overwhelmingly approved Proposition C in 2006.

Problem With Sales Tax Proposal:
We support the inclusion of the Landfill conversion and the call to "begin" managed competitions for several of the city functions that we have previously identified as the most likely to produce cost savings for taxpayers. However, the proposal does not require that the city use a fair and open competitive bidding process. Moreover, there is no commitment that any competition actually be "completed" under the proposal.

8. Reform of Existing Pension Benefits

We believe that a provision in the City Charter may offer labor unions and taxpayers a vehicle for a "negotiated settlement" on reforming the pension system.

Section 143.1 provides that "vested defined benefits" are subject to adjustment as long as "No ordinance amending the retirement system which affects the benefits of any employee under such retirement system shall be adopted without the approval of a majority vote of the members of said system."

Put simply, we believe this provision may provide the possibility of negotiating in good faith a comprehensive solution to the pension crisis with organized labor – and an immediate reduction in the annual pension payment of the city that would help balance the budget and restore vital services.

Problem With Sales Tax Proposal:
Absolutely no provision is included in the sales tax proposal to force a process of comprehensive renegotiation of existing pension benefits.

9. Reform Retiree Healthcare

City employees currently receive taxpayer-funded healthcare benefits for life. This benefit was granted without a mechanism to pay for it, resulting in a $1.3 billion unfunded liability. At the very least, retiree healthcare benefits should be comprehensively reformed to freeze the cost to taxpayers at no more than the $57 million level in the FY 2011 budget – and ideally less.

Problem With Sales Tax Proposal:
The sales tax proposal calls only for discussions, not action, on the retiree healthcare liability. A real reform plan would require a complete and comprehensive retiree healthcare reform plan be implemented by city leaders and labor unions – fixing the annual cost of this benefit at the current budgeted level or below.

10. Rebuild Neighborhood Infrastructure

A reform plan must not only address the pension crisis, but must also address the severely underfunded infrastructure needs of our neighborhoods. Unlike the liabilities for pension and retiree health, the city does not have an accurate and updated figure for the neighborhood infrastructure deferred maintenance liability.

We propose the development of a reform plan that makes specific commitment to increased funding for maintenance and improvement of our neighborhood streets, sidewalks, and other public facilities.

Problem With Sales Tax Proposal:
The sales tax proposal is absolutely silent on the need to address our neighborhood infrastructure deficit.

Committing to Action on the City's Financial Problems

Getting The Job Done By ***<u>November 2011</u>***

We offer these 10 criteria to engage our colleagues and the public in a robust, candid and complete discussion on solutions to the city's financial problems.

We do not believe that city government should add burden to San Diego's working families by imposing a regressive tax – in this case a sales tax increase.

Instead of placing this sales tax increase measure on the November 2010 ballot, and wasting public funds and time on a flawed proposal, we urge city leaders to commit to a one-year timeline for reform. (See attachment 2)

To achieve reform within the timeline we propose, city leaders should immediately form a **<u>Fiscal Recovery Task Force.</u>**

- **<u>Composition</u>**: The Recovery Task Force would be comprised of the Mayor, the City Attorney, and all eight City Council Members. If a Recovery Plan is going to be developed collaboratively, the meetings should be held in open session.

- **<u>Meetings</u>**: The City Council should dedicate the regular Monday meeting to deliberations of the Task Force from September 13 to December 6.

- **<u>Submission of Plans</u>**: Labor unions, business groups, and civic organizations would be asked to present their version of a comprehensive fiscal recovery package.

- **<u>Fiscal and Legal Analysis</u>**: Independent Budget Analyst would be asked to conduct fiscal analysis and the City Attorney would conduct a legal review on ideas presented.

- **<u>Labor Negotiations and Implementation</u>**: As reflected on the associated timeline, the Mayor and City Council would concurrently engage in good-faith labor negotiations on reform ideas.

- **<u>Special Election:</u>** If reforms require voter approval – and in order to ensure maximum accountability that city leaders and labor unions adhere to reforms – a special election in 2011 may be necessary.

It is our sincere hope that city leaders – and all stakeholders – seize this opportunity to offer thoughtful, methodical, and comprehensive fiscal reform for city taxpayers. We look forward to working collaboratively to achieve that in the coming weeks and months.

Timeline for Achieving Fiscal Reform

- **Join Orange County in Seeking IRS Determination to Qualify Current Employees for "Opt-Out" Option (August 2010)**
- **Seek Re-Opening of Labor Contracts to Begin Negotiations on All Reforms (August 2010)**
- **Obtain Full Fiscal and Legal Analysis of Reform Options (August – December 2010)**
- **Establish and Address Infrastructure Backlog and Ongoing Maintenance Deficit (September 2010)**
- **Seek Declaratory Relief on Charter Section 143.1 Pension Renegotiation Provision (September 2010)**
- **Complete DROP Cost Neutrality Study (January 2011)**
- **Complete Negotiations on Retiree Health Care Reform and Approve Agreement (Fall 2010/Early 2011)**
- **Secure Agreement to Allow All Employees to Opt In and Out of Pension Tiers (February 2011)**
- **Complete Negotiations to Establish More Affordable Pension Tiers (March 2011)**
- **Receive Bids through Managed Competition (Spring/Summer 2011)**
- **Complete Reform of Discretionary Pension Benefits (June 2011)**
- **Council Gives Final Approval of Managed Competition Bids (Fall 2011)**
- **Possibility of Special Election – If Necessary (Fall 2011)**